

COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Financial Statements
(With Independent Auditors' Report Thereon)

Year ended June 30, 2005

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Financial Statements

Year ended June 30, 2005

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Financial Statements

Year ended June 30, 2005

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To The Chairman and Board Members
Community Development Commission of the City of National City
National City, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Community Development Commission of the City of National City (the "Commission") as of and for the year ended June 30, 2005, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund financial of the Commission at June 30, 2005, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2005 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

December 21, 2005

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Community Development Commission of National City

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Community Development Commission of National City's financial performance provides an overview of the Community Development Commission's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying basic financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Community Development Commission as a whole and present a longer-term view of the Community Development Commission's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Community Development Commission's operations in more detail than the government-wide statements by providing information about the Community Development Commission's most significant funds.

Reporting the Community Development Commission as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Community Development Commission's finances is, "Is the Community Development Commission as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Community Development Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Community Development Commission's *net assets* and changes in them. You can think of the Community Development Commission's net assets—the difference between assets and liabilities—as one way to measure the Community Development Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Community Development Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. More importantly, you will need to consider other nonfinancial factors, such as changes in the Community Development Commission's tax increment, grants and bonding capacity, to assess the *overall health* of the Community Development Commission.

The Statement of Net Assets and the Statement of Activities present information about the following:

- Governmental activities—All of the Community Development Commission's basic services are considered to be governmental activities, including salaries and wages, community development, and public works. Tax increment and investment income finance most of these activities.

Reporting the Community Development Commission's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, the Community Development Commission's Board establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Community Development Commission only has *governmental* fund types.

- *Governmental funds*—Most of the Community Development Commission's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Community Development Commission's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Community Development Commission's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation at the bottom of the fund financial statements.

THE COMMUNITY DEVELOPMENT COMMISSION AS A WHOLE

Our analysis focuses on the Community Development Commission's governmental and business net assets (Table 1) and changes in net assets (Table 2) of the Community Development Commission's governmental and business-type activities.

Table 1				
Net Assets				
(in Millions)				
	FY 2003-2004		FY 2004-2005	
	Governmental	Business-type	Governmental	Business-type
Current and other assets	40.8	2.3	37.6	3.2
Capital assets	3.1	9.4	3.0	8.5
Total Assets	43.9	11.7	40.6	11.7
Long-term debt outstanding	47.6	3.5	48.6	3.3
Other liabilities	5.5	.1	4.1	.2
Total Liabilities	53.1	3.4	52.7	3.5
Net assets:				
Invested in capital assets, net of debt	3.0	5.9	3.0	5.7
Restricted	-	2.2	-	2.5
Unrestricted (deficit)	(12.2)		(15.2)	-
Total net Assets	\$(9.2)	8.1	(12.1)	8.2

Governmental and Business-type Activities

Table 2				
Changes in Net Assets				
(in Millions)				
	FY 2003 - 2004		FY 2004 - 2005	
	Governmental	Business-type	Governmental	Business-type
Revenues				
Program revenues:				
Community development	\$ 9.9	-	11.7	-
Housing	-	1.8	-	1.8
General revenues:				
Tax Increment	8.5	-	9.6	-
Investment income	.3	-	.3	-
Other	2.2	-	3.1	-
Transfer to City of National City			(2.2)	
Total revenues	20.9	1.8	22.5	1.8
Expenses				
Low and moderate housing	.2	1.7	.4	1.6
Community development	20.6	-	21.9	-
Interest on long-term debt	1.6	-	4.0	.2
Housing	-		-	
Total expenses	22.4	1.6	26.3	1.8
Increase (decrease) in net assets	\$(1.5)	.2	(3.8)	-

During fiscal year 2004-2005, the Community Development Commission transferred \$2.2 million of Tax Allocation bond funds to the City of National City for the construction of the National City Fire Station. There was no significant change in the business-type net assets.

CAPITAL ASSET AND DEBT ADMINISTRATION

There were no significant changes to both the Governmental type and Business-type capital assets during fiscal year 2004-2005 (Table 3).

Table 3				
Capital Assets at Year-End (Net of Depreciation, in Millions)				
	FY 2003 - 2004		FY 2004 - 2005	
	Governmental	Business-type	Governmental	Business-type
Land	\$2.0	.5	2.0	.5
Buildings & improvements	2.4	14.1	2.4	14.1
Machinery & equipment	.1	1.3	.1	1.3
Accumulated depreciation	(1.4)	(6.6)	(1.5)	(6.6)
Totals	\$3.1	9.3	3.0	9.3

During the fiscal year, the agency refunded the variable rate 2001 Series A and B Tax Allocation Bonds and entered into a fixed rate bond. As a result, the five year interest rate SWAP was also terminated. Please refer the Notes to Basic Financial Statements for more information.

Table 4				
Outstanding Debt, at Year-end (in Millions)				
	FY 2003-2004		FY 2004-2005	
	Governmental	Business-type	Governmental	Business-type
Tax allocation bonds - 1999	\$ 4.7	-	4.6	-
Tax allocation bonds - 2001 Series A	26.7	-	-	-
Tax allocation bonds - 2001 Series B	10.6	-	-	-
Tax Allocation Bonds - 2004	5.9	-	5.9	-
Tax Allocation Bonds - 2005	-	-	27.9	-
Note payable	-	3.5	9.8	3.3
Totals	\$47.9	3.5	48.2	3.3

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In January 2005, the Community Development Commission refunded the 2001 Tax Allocation Bonds Series A and B to take advantage of low interest rates and stabilize the variable interest rates of the bond issue. In addition, as a result of the refunding, the interest rate SWAP agreement was also terminated. The Community Development Commission also anticipates issuing additional tax allocation bonds during the second quarter of fiscal year 2006 to fund various projects within the Redevelopment Area.

ACCOMPLISHMENTS

The following are the Community Development Commission's accomplishments for the fiscal year 2005-2006. These accomplishments will be divided into Redevelopment Activities and Housing Activities.

Housing Activities

- Downtown Specific Plan: The CDC Board approved the Downtown Specific Plan in February 2005, which will help facilitate significant redevelopment over the next several years.
- Equity Sharing Program: The CDC approved an equity sharing program for future affordable housing developments to assist borrowers in the purchase of homes in National City
- Ha' Penny Inn: Request for proposals to convert existing hotel to senior apartment complex.
- 1441 Harding, 405 West 18th Street and 1820 G Avenue: Circulated request for proposals to develop excess CDC property for infill housing.
- 3404 Valley Road and 1100 Block of A Avenue: Circulated request for proposals to develop excess CDC property for infill housing.
- 921 National City Blvd. and 1100 Block of A Avenue: Circulated request for proposals to develop excess CDC property for infill housing and commercial mixed-use.
- 1125 East Division Street: The CDC approved a DDA with National City Housing Fund, Inc. to develop a residential project on this site.
- 1100 Block National City Blvd & Roosevelt Avenue: The CDC approved an ENA with ERA Holdings to develop a high-rise residential project.
- 1100 Block A Avenue: The CDC approved an ENA with Constellation Group to develop 28 town homes.
- 1100 Block National City Blvd & Roosevelt Avenue: The CDC approved an ENA with ERA Holdings to develop 200 condominiums.

Redevelopment Activities

- Education Village: Completed educational center on National City Blvd. that is a satellite campus for San Diego State University, Southwestern Community College and Sweetwater Union High School District.
- Downtown Property Business Improvement District ("PBID"): The PBID was created initiate and sustain future revitalization efforts in the Downtown area.
- Public Library: New library was completed to provide enhanced services to the community and serve as the focal point for the Library Village residential development project.
- National City Blvd: Street median improvements from 7th to 12th Streets have begun.
- Highland Avenue Master Plan: Adopted by the CDC to facilitate streetscape and façade improvements along with the establishment of a Business Improvement District for Highland Avenue.

CONTACTING THE COMMUNITY DEVELOPMENT COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Community Development Commission's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Community Development Commission of the City of National City, Finance and Administration Division, 140 East 12th Street, Suite B, National City, California 91950 or by email at cdc@ci.national-city.ca.us.

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BASIC FINANCIAL STATEMENTS

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments (note 5)	\$ 19,643,830	638,722	20,282,552
Cash and investments with fiscal agent (note 5)	5,297,487	1,828,652	7,126,139
Receivables:			
Accounts	177,533	1,564	179,097
Interest	23,668	-	23,668
Taxes	323,751	-	323,751
Loans	2,297,390	-	2,297,390
First time homebuyers loans	225,098	-	225,098
Prepaid expense		67,456	67,456
Deposits	1,018,835	80,396	1,099,231
Land held for resale	8,518,968	-	8,518,968
Capital assets (note 6):			
Nondepreciable capital assets	2,050,000	528,382	2,578,382
Depreciable capital assets, net of accumulated depreciation	<u>989,999</u>	<u>8,513,083</u>	<u>9,503,082</u>
Total assets	<u>40,566,559</u>	<u>11,658,255</u>	<u>52,224,814</u>
<u>Liabilities</u>			
Accounts payable and other liabilities	3,308,479	150,401	3,458,880
Accrued salaries and benefits	88,743	-	88,743
Accrued interest payable	650,330	-	650,330
Deferred revenue	100,000	-	100,000
Noncurrent liabilities (note 7):			
Due within one year	2,390,000	138,792	2,528,792
Due in more than one year	<u>46,170,399</u>	<u>3,189,349</u>	<u>49,359,748</u>
Total liabilities	<u>52,707,951</u>	<u>3,478,542</u>	<u>56,186,493</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	3,039,999	5,713,324	8,753,323
Restricted for housing	-	2,466,389	2,466,389
Unrestricted (deficit)	<u>(15,181,391)</u>	<u>-</u>	<u>(15,181,391)</u>
Total net assets	<u>\$ (12,141,392)</u>	<u>8,179,713</u>	<u>(3,961,679)</u>

See accompanying notes to basic financial statements.

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Total Program Revenues
Governmental activities:					
Low and moderate housing	\$ 409,901	-	-	-	-
Community development	21,920,658	92,917	11,645,803	-	11,738,720
Interest on long-term debt and related charges	<u>3,985,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>26,316,489</u>	<u>92,917</u>	<u>11,645,803</u>	<u>-</u>	<u>11,738,720</u>
Business-type activities:					
Low and moderate housing	1,594,948	952,156	891,762	-	1,843,918
Interest on long-term debt and related charges	<u>221,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>1,816,212</u>	<u>952,156</u>	<u>891,762</u>	<u>-</u>	<u>1,843,918</u>
Total primary government	<u>\$ 28,132,701</u>	<u>1,045,073</u>	<u>12,537,565</u>	<u>-</u>	<u>13,582,638</u>

General revenues:

Taxes:

Tax increment

Investment income

Other

Transfers to City of National City

Total general revenues and transfers

Change in net assets

Net assets (deficit) at beginning of year,
as restated, (note 12)

Net assets (deficit) at end of year

See accompanying notes to the basic financial statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
(409,901)	-	(409,901)
(10,181,938)	-	(10,181,938)
<u>(3,985,930)</u>	<u>-</u>	<u>(3,985,930)</u>
<u>(14,577,769)</u>	<u>-</u>	<u>(14,577,769)</u>
-	248,970	248,970
<u>-</u>	<u>(221,264)</u>	<u>(221,264)</u>
<u>-</u>	<u>27,706</u>	<u>27,706</u>
<u>(14,577,769)</u>	<u>27,706</u>	<u>(14,550,063)</u>
9,603,723	-	9,603,723
345,120	35,635	380,755
3,157,485	-	3,157,485
<u>(2,225,000)</u>	<u>-</u>	<u>(2,225,000)</u>
<u>10,881,328</u>	<u>35,635</u>	<u>10,916,963</u>
(3,696,441)	63,341	(3,633,100)
<u>(8,444,951)</u>	<u>8,116,372</u>	<u>(328,579)</u>
<u>(12,141,392)</u>	<u>8,179,713</u>	<u>(3,961,679)</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Balance Sheet - Governmental Funds

June 30, 2005

	Special Revenue Funds			
	Community Development Block Grant	Section 8 Housing Assistance	Home Loan Program	HOME Program
<u>Assets</u>				
Cash and investments (note 5)	\$ 547,123	651,567	2,593,053	1,333,958
Cash with fiscal agent (note 5)	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Interest	-	-	-	-
Taxes	-	-	-	-
Loans	14,870	-	750,660	-
First time homebuyers loans	-	-	-	225,098
Due from other funds (note 4)	-	-	-	-
Deposits	-	3,386	-	-
Land held for resale	-	-	-	1,705,802
Total assets	<u>\$ 561,993 ✓</u>	<u>654,953 ✓</u>	<u>3,343,713 ✓</u>	<u>3,264,858</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 752,478	197,210 ✓	4,672	153,980
Accrued payroll	-	-	-	-
Due to other funds (note 4)	-	1,210,146	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>752,478 ✓</u>	<u>1,407,356</u>	<u>4,672 ✓</u>	<u>153,980 ✓</u>
Fund Balances:				
Reserved for:				
Loans receivable	14,870 ✓	-	750,660 ✓	-
First time homebuyer loan receivables	-	-	-	225,098
Bond requirement	-	-	-	-
Debt service	-	-	-	-
Land held for resale	-	-	-	1,705,802
Advances to other funds	-	-	-	-
Designated for:				
Approved capital projects	-	-	-	-
Undesignated	<u>(205,355) ✓</u>	<u>(752,403) ✓</u>	<u>2,588,381 ✓</u>	<u>1,179,978</u>
Total fund balances	<u>(190,485) ✓</u>	<u>(752,403) ✓</u>	<u>3,339,041 ✓</u>	<u>3,110,878</u>
Total liabilities and fund balances	<u>\$ 561,993 ✓</u>	<u>654,953 ✓</u>	<u>3,343,713 ✓</u>	<u>3,264,858</u>

See accompanying notes to the basic financial statements.

Special Revenue Funds			Capital Projects Funds		Totals
Nutrition Project	Low and Moderate Income Housing Program	Debt Service Fund	Redevelopment Fund	Education Village	Governmental Funds
-	2,603,808	-	11,914,321	-	19,643,830
-	-	2,739,122	2,558,365	-	5,297,487
99,039	-	-	78,494	-	177,533
-	6,069	-	17,599	-	23,668
-	64,750	-	259,001	-	323,751
-	1,177,253	-	354,607	-	2,297,390
-	-	-	-	-	225,098
-	-	-	2,024,328	-	2,024,328
-	-	-	1,015,449	-	1,018,835
-	360,000	-	6,453,166	-	8,518,968
<u>99,039 ✓</u>	<u>4,211,880</u>	<u>2,739,122 ✓</u>	<u>24,675,330 ✓</u>	<u>-</u>	<u>39,550,888</u>
89,834	3,101	-	2,107,204	-	3,308,479
-	-	-	88,743	-	88,743
814,182	-	-	-	-	2,024,328
-	-	-	100,000	-	100,000
<u>904,016 ✓</u>	<u>3,101 ✓</u>	<u>-</u>	<u>2,295,947 ✓</u>	<u>-</u>	<u>5,521,550</u>
-	1,177,253	-	354,607	-	2,297,390
-	-	-	-	-	225,098
-	-	2,739,122	-	-	2,739,122
-	-	-	-	-	-
-	360,000	-	6,453,166	-	8,518,968
-	-	-	-	-	-
-	-	-	-	-	-
<u>(804,977)</u>	<u>2,671,526</u>	<u>-</u>	<u>15,571,610</u>	<u>-</u>	<u>20,248,760</u>
<u>(804,977)</u>	<u>4,208,779</u>	<u>2,739,122 ✓</u>	<u>22,379,383 ✓</u>	<u>-</u>	<u>34,029,338</u>
<u>99,039 ✓</u>	<u>4,211,880</u>	<u>2,739,122 ✓</u>	<u>24,675,330 ✓</u>	<u>-</u>	<u>39,550,888</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the year ended June 30, 2005

	Special Revenue Funds			
	Community Development Block Grant	Section 8 Housing Assistance	Home Loan Program	HOME Program
Revenues:				
Property tax allocated	\$ -	-	-	-
Subventions and grants	1,641,963	8,307,062	-	1,130,811
HILP payments	1,005	-	56,747	35,165
Interest income	-	37,587	303	-
Other income	74	4,418	824	258
Total revenues	<u>1,643,042</u> ✓	<u>8,349,067</u> ✓	<u>57,874</u>	<u>1,166,234</u> ✓
Expenditures:				
Current:				
Personnel services	201	688,132	267	48,336
Special services	24,940	218,028	11,969	2,317
Community development	2,101,086	7,385,532	5,237	1,614,478
Capital outlay	-	35,795	-	-
Debt Service:				
Principal payments	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>2,126,227</u> ✓	<u>8,327,487</u> ✓	<u>17,473</u>	<u>1,665,131</u>
Revenues over (under) expenditures	(483,185)	21,580	40,401	(498,897)
Other financing sources (uses):				
Transfers in (note 3)	-	-	-	-
Transfers out (note 3)	-	(1,165,471) ✓	-	-
Transfer to City of National City	-	-	-	-
Payment to bond escrow agent	-	-	-	-
Issuance of debt	-	-	-	-
Total other financing sources (uses)	-	<u>(1,165,471)</u> ✓	-	-
Net change in fund balance	(483,185)	<u>(1,143,891)</u> ✓	40,401	(498,897)
Fund balance, beginning of year, as restated (note 12)	<u>292,700</u>	<u>391,488</u>	<u>3,298,640</u>	<u>3,609,775</u>
Fund balance, end of year	<u>\$ (190,485)</u>	<u>(752,403)</u>	<u>3,339,041</u>	<u>3,110,878</u>

See accompanying notes to the basic financial statements.

Special Revenue Funds			Capital Projects Funds		Total Governmental Funds
Nutrition Project	Low and Moderate Income Housing Program	Debt Service Fund	Redevelopment Fund	Education Village	
-	1,920,744	-	7,682,979	-	9,603,723
375,291	-	-	190,676	-	11,645,803
-	-	-	-	-	92,917
-	23,627	4,684	278,919	-	345,120
237,016	183,311	852,592	1,878,992	-	3,157,485
612,307 ✓	2,127,682 ✓	857,276	10,031,566	-	24,845,048
501,268	94,277	-	1,306,327	-	2,638,808
35,028	348	-	2,352,519	-	2,645,149
401,658	315,276	-	4,987,674	-	16,810,941
-	-	-	47,802	-	83,597
-	-	515,000 ✓	-	-	515,000
-	-	3,256,567	-	-	3,256,567
937,954	409,901	3,771,567	8,694,322	-	25,950,062
(325,647)	1,717,781	(2,914,291)	1,337,244	-	(1,105,014)
-	-	1,409,947	11,305,057	-	12,715,004
-	(5,560,163) ✓	(483,619) ✓	(1,005,751) ✓	(4,500,000) ✓	(12,715,004)
-	-	-	(2,225,000) ✓	-	(2,225,000)
-	-	(37,111,533)	-	-	(37,111,533)
-	-	37,780,000	-	-	37,780,000
-	(5,560,163)	1,594,795	8,074,306	(4,500,000) ✓	(1,556,533)
(325,647)	(3,842,382)	(1,319,496)	9,411,550	(4,500,000)	(2,661,547)
(479,330)	8,051,161	4,058,618	12,967,833	4,500,000	36,690,885
(804,977)	4,208,779	2,739,122	22,379,383	-	34,029,338

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Government-Wide Statements of Activities

Year ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (2,661,547)

Amounts reported for governmental activities in the statement of activities
differs from the amounts reported in the statement of activities because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the costs of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount by which
capital outlays exceeded depreciation, net of additions and disposals. (81,667)

Proceeds from the issuance of bonds is reported as other financing sources in
governmental funds. The issuance of bonds increases liabilities in the
statement of net assets, but does not result in an increase in net assets in the
statement of activities. (37,780,000)

Repayment of debt service principal and payments to escrow agent for debt
refundings are expenditures in the governmental funds, but the payments
reduce long-term liabilities in the statement of net assets. 37,450,000

Accrued Interest for debt service. This is the net change in accrued interest
for the current period. (552,830)

Compensated absences expenses reported in the statement of activities do not
require the use of current financial resources and therefore are not reported as
expenditures in governmental funds. (70,397)

Change in Net Assets of Governmental Activities \$ (3,696,441)

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Statement of Net Assets - Enterprise Funds
June 30, 2005

	<u>Kimball Towers</u>	<u>Morgan Towers</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and investments (notes 2 and 5)	\$ 555,013	83,709	638,722
Accounts receivable	1,564	-	1,564
Prepaid expense	32,219	35,237	67,456
Deposits	41,694	38,702	80,396
Total current assets	<u>630,490</u>	<u>157,648</u>	<u>788,138</u>
Restricted cash and investments with fiscal agent (notes 2 and 5)	<u>751,136</u>	<u>1,077,516</u>	<u>1,828,652</u>
Noncurrent assets:			
Capital assets (note 6):			
Nondepreciable assets	315,814	212,568	528,382
Depreciable capital assets, net of accumulated depreciation	<u>5,352,332</u>	<u>3,160,751</u>	<u>8,513,083</u>
Total capital assets	<u>5,668,146</u>	<u>3,373,319</u>	<u>9,041,465</u>
Total assets	<u>7,049,772</u>	<u>4,608,483</u>	<u>11,658,255</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued liabilities	31,640	38,365	70,005
Notes payable-due within one year (note 7)	<u>-</u>	<u>138,792</u>	<u>138,792</u>
Total current liabilities	<u>31,640</u>	<u>177,157</u>	<u>208,797</u>
Noncurrent liabilities:			
Tenant security deposit liability	41,694	38,702	80,396
Note Payable-due in more than one year (note 7)	<u>-</u>	<u>3,189,349</u>	<u>3,189,349</u>
Total noncurrent liabilities	<u>41,694</u>	<u>3,228,051</u>	<u>3,269,745</u>
Total liabilities	<u>73,334</u>	<u>3,405,208</u>	<u>3,478,542</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	5,668,146	45,178	5,713,324
Restricted for:			
Housing	<u>1,308,292</u>	<u>1,158,097</u>	<u>2,466,389</u>
Total net assets	<u>\$ 6,976,438</u>	<u>1,203,275</u>	<u>8,179,713</u>

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds

Year ended June 30, 2005

	Kimball Towers	Morgan Towers	Total
Operating revenues:			
Rental Income	\$ 491,397	445,491	936,888
Section 8 Housing assistance payment	393,072	498,690	891,762
Other	<u>7,696</u>	<u>7,572</u>	<u>15,268</u>
Total operating revenues	<u>892,165</u>	<u>951,753</u>	<u>1,843,918</u>
Operating expenses:			
Maintenance and operation	653,535	579,797	1,233,332
Depreciation	<u>187,350</u>	<u>174,266</u>	<u>361,616</u>
Total operating expenses	<u>840,885</u>	<u>754,063</u>	<u>1,594,948</u>
Operating income (loss)	<u>51,280</u>	<u>197,690</u>	<u>248,970</u>
Nonoperating revenues (expenses):			
Interest Income	17,411	18,224	35,635
Interest expense	<u>-</u>	<u>(221,264)</u>	<u>(221,264)</u>
Total nonoperating revenues (expense)	<u>17,411</u>	<u>(203,040)</u>	<u>(185,629)</u>
Change in net assets	68,691	(5,350)	63,341
Net assets:			
Beginning of year	<u>6,907,747</u>	<u>1,208,625</u>	<u>8,116,372</u>
End of year	<u>\$ 6,976,438</u>	<u>1,203,275</u>	<u>8,179,713</u>

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Statement of Cash Flows - Enterprise Funds
Year ended June 30, 2005

	Kimball Towers	Morgan Towers	Total
Cash flows from operating activities:			
Cash received from customers	\$ 884,620	951,753	1,836,373
Cash payments to employees for services	-	(189,451)	(189,451)
Cash payments to suppliers for goods and services	<u>(638,826)</u>	<u>(372,237)</u>	<u>(1,011,063)</u>
Net cash provided (used) by operating activities	<u>245,794</u>	<u>390,065</u>	<u>635,859</u>
Cash flows from investing activities:			
Change in property plant and equipment	<u>-</u>	<u>(14,263)</u>	<u>(14,263)</u>
Net cash provided (used) by investing activities	<u>-</u>	<u>(14,263)</u>	<u>(14,263)</u>
Cash flows from financing activities:			
Principal payments of note payable	-	(138,792)	(138,792)
Interest income	17,411	18,224	35,635
Interest expense	<u>-</u>	<u>(221,264)</u>	<u>(221,264)</u>
Net cash provided (used) by financing activities	<u>17,411</u>	<u>(341,832)</u>	<u>(324,421)</u>
Increase (decrease) in cash	263,205	33,970	297,175
Cash and cash equivalents (including cash with fiscal agent):			
Beginning of year	1,042,944	1,127,255	2,170,199
End of year	<u>\$ 1,306,149</u>	<u>1,161,225</u>	<u>2,467,374</u>
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:			
Operating income (loss)	51,280	197,690	248,970
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	187,350	174,266	361,616
Change in assets and liabilities:			
Accounts receivable	(1,564)	-	(1,564)
Prepaid expenses	925	(1,701)	(776)
Accounts payable	6,087	19,810	25,897
Deposits	1,716	-	1,716
Tenant security deposit liability	-	-	-
Advances from other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total adjustments	<u>194,514</u>	<u>192,375</u>	<u>386,889</u>
Net cash provided (used) by operating activities	<u>\$ 245,794</u>	<u>390,065</u>	<u>635,859</u>

See accompanying notes to basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

Year ended June 30, 2005

(1) Summary of Significant Accounting Policies

The basic financial statements of the Community Development Commission of National City (the "Commission"), a component unit of the City of National City (the "City"), have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

(a) Description of the Reporting Entity

The Community Development Commission of the City of National City (the "Commission") was established in April 1967 pursuant to provisions of the California Health and Safety Code. The Commission is subject to the oversight responsibility of the City Council of the City of National City (the "City") and, accordingly, is a component unit of the City, although it is a separate legal entity. The Commission's primary purpose is to eliminate blighted areas within the City by encouraging development of residential, commercial, industrial, recreational and public facilities and to assist neighborhood redevelopment through residential property improvement loans and housing assistance payments to low and moderate income earners. The Commission accounts for its financial position and operations in accordance with generally accepted accounting principles in the United States applicable to governmental units.

(b) Basis of Accounting and Measurement Focus

The accounts of the Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government – Wide Financial Statements

The Commission's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Commission.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Government – Wide Financial Statements, (Continued)

These basic financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the Commission’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Commission in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Interfund transfers have been eliminated as prescribed by GASB Statement No. 34 in regards to interfund activities.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net assets presented in the government-wide financial statements. The Commission has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Governmental Fund Financial Statements, (Continued)

Revenues are recorded when received in cash, except for revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Commission, are property tax, special assessments, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of the GASB Statement No. 34.

The Commission reports the following major governmental funds:

Community Development Block Grant – To account for activities related to the annual grant from the Department of Housing and Urban Development to assist in developing viable urban community by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low and moderate income persons.

Section 8 Housing Assistance – To provide rental assistance to low income families by subsidizing a portion of the rent directly to landlords on behalf of low income households.

Home Loan Program – To provide home improvement loans to low and moderate income families that meet certain conditions to qualify for the loan.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Governmental Fund Financial Statements, (Continued)

HOME Program – To account for activities related to the annual grant from the Department of Housing and Urban Development to administer programs designed to provide decent affordable housing, expand capacity of nonprofit housing providers, and to leverage private sector participation.

Nutrition Program – This program provides a friendly setting for low income and minority seniors to have a nutritionally balanced meal. The Nutrition Council and volunteers provide an effective framework to assist in the meal distribution, solicitation of funds and social services needs of clients.

Low and Moderate Income Housing Program – To account for the tax increment which is required to be set aside under Section 33334.2 of the California Health and Safety Code to increase, improve or preserve the community's supply of low and moderate income housing.

Debt Service Fund – To account for the accumulation of resources for the payment of principal, interest, and related costs of the Commission's long-term debt.

Redevelopment Fund – To account for the administrative expenditures of the Commission and redevelopment capital projects.

Educational Village – To account for activities associated with the development of a commercial/education building in conjunction with Southwestern Community College.

In addition, the Commission also reports the following major enterprise funds:

Kimball Towers – To account for the activities relating to the operations of Kimball Tower which use is restricted to housing low and moderate income seniors.

Morgan Towers – To account for the activities relating to the operations of Morgan Tower which use is restricted to housing low and moderate income seniors.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Cash, Cash Equivalents, and Investments

The Commission's investment policy authorizes deposits in any of the approved investments contained in the California Government Code Sections 53600 et seq. During the year ended June 30, 2005, the Commission complied with these policies.

Investment income earned on unrestricted cash is allocated to the Commission's various funds as required by grant/loan agreements or at the Board's discretion.

The Commission pools its available cash with the City for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The Commission participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

(d) Use of Restricted/Net Assets

When an expense is incurred for purposes for which both restricted net assets are available, the Commission's policy is to apply restricted net assets first.

(e) Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(f) Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund types.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Rather, interest expense is simply recorded when it is due or paid.

(g) Long-Term Liabilities

Government-Wide Financial Statements – Long-term debt and other long-term obligations are reported as liabilities in the primary government's governmental activity.

Fund Financial Statements – The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

(h) Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

(i) Fund Balances – Reservations and Designations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use of a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(j) Property Tax Increments

One of the Commission's primary sources of revenue is from property tax increments. The assessed valuation of all property within the Downtown Redevelopment Project area was determined on the date of adoption of the Redevelopment Plan. Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Commission; all taxes on the "frozen" assessed valuation of the property are allocated to the City and unrelated taxing agencies.

(k) Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

(2) Enterprise Fund Restricted Cash

In accordance with Department of Housing and Urban Development (HUD) requirements, the Morgan Towers Enterprise Fund maintains the following restricted cash accounts:

- > Reserve for replacements of \$601,521 represents a monthly deposit of \$3,127, less current use for replacement, plus income earned thereon. The balance of this reserve will be used for the future replacement of property with HUD's approval.
- > Residual receipts reserve of \$452,385 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can be expended only with HUD's approval.
- > Reserve for property tax, MIP and insurance impounds of \$3,091, \$13,982 and \$6,537, respectively, totaling \$23,610, which represents amounts held for the future payment of property tax, property and mortgage insurance.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(2) Enterprise Fund Restricted Cash, (Continued)

Additionally, the Kimball Towers Enterprise Fund maintains the following HUD restricted cash accounts:

- Residual receipts reserve of \$261,370 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can be expended only with HUD's approval.

Other restricted cash and investments totaling \$489,766 are included in the accompanying basic financial statements.

(3) Transfers In/Transfers Out

The following schedule summarizes the Commission's transfer activity:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Redevelopment Fund	Education Village	\$ 4,500,000 (a)
	Low and Moderate Income Housing Fund	5,155,967 (b)
	Section 8 Housing Fund	1,165,471 (c)
	Debt Service Fund	<u>483,619 (d)</u>
Subtotal		11,305,057
Debt service Fund	Redevelopment Fund	1,005,751 (e)
	Low and Moderate Income Housing Fund	<u>404,196 (f)</u>
Total		<u>\$12,715,004</u>

- (a) The Education Village Fund transferred \$4,500,000 to the Redevelopment Fund as reimbursement for costs incurred for the Education Village Project.
- (b) The Low and Moderate Income Housing Fund transferred \$5,155,967 to the Redevelopment Fund for prior year debt service payments on the 2001 Series A Tax Allocation Bonds.
- (c) The Section 8 Housing Fund transferred \$1,165,471 to the Redevelopment Fund as reimbursement for prior year operating expenses.
- (d) The Debt Service Fund transferred \$483,619 to the Redevelopment Fund as reimbursement for the 2004 Tax Allocation Surety Bond.
- (e) The Redevelopment Fund provided funds to the Debt Service Fund to cover debt service payments made during the fiscal year.
- (f) The Low and Moderate Income Housing Fund transferred \$404,196 to the Debt Service Fund to cover debt service payments.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(4) Due From and To Other Funds

Interfund receivable and payable balances at June 30, 2005 are as follows:

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Redevelopment Fund	Section 8 Housing Assistance Fund	\$ 1,210,146 (a)
	Nutrition Fund	<u>814,182 (b)</u>
Total		<u>\$ 2,024,328</u>

- (a) Interfund balance was the result of short-term borrowing to cover negative cash balances and to provide for a one-month reserve of Housing Assistance Payments at June 30, 2005.
- (b) Interfund balance in the amount of \$182,862 was the result of short-term borrowing to cover negative cash balances at June 30, 2005. The remaining interfund balance in the amount of \$631,230 was the result of short-term borrowing to cover operating expenditures during the year.

(5) Cash and Investments

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 20,282,552
Cash and investments with fiscal agent	<u>7,126,139</u>
Total cash and investments	<u>\$ 27,408,691</u>

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	\$ 800
Deposits with financial institutions	17,466,949
Investments	<u>9,940,942</u>
Total cash and investments	<u>\$ 27,408,691</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the Commission's Investment Policy

The table below identifies the investment types that are authorized for the Commission by the California Government Code and the Commission's investment policy. The table also identifies certain provisions of the California Government Code (or the Commission's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by fiscal agent that are governed by the provisions of debt agreements of the Commission, rather than the general provisions of the California Government Code or the Commission's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment in One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	15%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by fiscal agent are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Commission's investment policy. The table below identifies the investment types that are generally authorized for investments held by fiscal agent. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Certificates of Deposit	None	None	None
Repurchase Agreements	None	None	None
Mortgage Pass-Through Securities	None	None	None
State Bonds or Notes	None	None	None
Municipal Bonds or Notes	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Commission manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Information about the sensitivity of the fair values of the Commission's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
US Treasury Obligations	\$ 297,141	297,141	-	-
US Agency Securities	2,250,000	-	1,500,000	750,000
Negotiable Certificates of Deposit	99,000	-	-	99,000
Local Agency Investment Fund (LAIF)	1,997,314	1,997,314	-	-
Held by Fiscal Agent:				
Money Market Funds	<u>5,297,487</u>	<u>5,297,487</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,940,942</u>	<u>7,591,942</u>	<u>1,500,000</u>	<u>849,000</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Commission's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
US Treasury Obligations	\$ 297,141	N/A	-	297,141	-
US Agency Securities	2,250,000	AAA	-	-	2,250,000
Negotiable Certificates of Deposit	99,000	N/A	-	-	99,000
Local Agency Investment Fund (LAIF)	1,997,314	N/A	1,997,314	-	-
Held by Fiscal Agent:					
Money market funds	<u>5,297,487</u>	N/A	<u>5,297,487</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,940,942</u>		<u>7,294,801</u>	<u>297,141</u>	<u>2,349,000</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2005, none of the Commission's deposits with financial institutions that were in excess of federal depository insurance limits were held in uncollateralized accounts.

For investments identified herein as held by fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The Commission is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(6) Capital Assets

The following is a summary of capital assets for the year ended June 30, 2005:

	<u>Balance at June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2005</u>
<u>Government Activities:</u>				
Capital assets:				
Buildings and improvements	\$2,450,000	-	-	2,450,000
Machinery and equipment	<u>81,163</u>	<u>-</u>	<u>-</u>	<u>81,163</u>
Total cost of depreciable capital assets	<u>2,531,163</u>	<u>-</u>	<u>-</u>	<u>2,531,163</u>
Less accumulated depreciation:				
Buildings and improvements	(1,378,334)	(81,667)	-	(1,460,001)
Machinery and equipment	<u>(81,163)</u>	<u>-</u>	<u>-</u>	<u>(81,163)</u>
Total accumulated depreciation	<u>(1,459,497)</u>	<u>(81,667)</u>	<u>-</u>	<u>(1,541,164)</u>
Depreciable capital assets, net	1,071,666	(81,667)	-	989,999
Capital assets not depreciated:				
Land	<u>2,050,000</u>	<u>-</u>	<u>-</u>	<u>2,050,000</u>
Capital assets, net	<u>\$3,121,666</u>	<u>(81,667)</u>	<u>-</u>	<u>3,039,999</u>

Depreciation expense in governmental activities for capital assets for the year ended June 30, 2005 was \$81,667 which was allocated to community development.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

	<u>Balance at June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2005</u>
<u>Business-Type Activities:</u>				
Depreciable assets:				
Buildings	\$14,081,797	-	-	14,081,797
Machinery and equipment	<u>1,380,330</u>	<u>14,262</u>	<u>-</u>	<u>1,394,592</u>
Total cost of depreciable assets	<u>15,462,127</u>	<u>14,262</u>	<u>-</u>	<u>15,476,389</u>
Less accumulated depreciation:				
Buildings	<u>(6,601,690)</u>	<u>(361,616)</u>	<u>-</u>	<u>(6,963,306)</u>
Total accumulated depreciation	<u>(6,601,690)</u>	<u>(361,616)</u>	<u>-</u>	<u>(6,963,306)</u>
Depreciable capital assets, net	8,860,437	(347,354)	-	8,513,083
Capital assets not depreciated:				
Land	<u>528,382</u>	<u>-</u>	<u>-</u>	<u>528,382</u>
Capital assets, net	<u>\$ 9,388,819</u>	<u>(347,354)</u>	<u>-</u>	<u>9,041,465</u>

Depreciation expense in business-type activities for capital assets for the year ended June 30, 2005 was \$361,616, which was allocated to low and moderate housing.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year	Amount Due Beyond One Year
Governmental Activities:						
Bonds payable:						
1999 Tax Allocation Bonds	\$ 4,735,000	-	(95,000)	4,640,000	95,000	4,545,000
2001 Series A Tax Allocation Bonds	26,745,000	-	(26,745,000)	-	-	-
2001 Series B Tax Allocation Bonds	10,610,000	-	(10,610,000)	-	-	-
2004 Series Tax Allocation Bonds	5,860,000	-	-	5,860,000	220,000	5,640,000
2005 Series A Tax Allocation Bonds	-	27,940,000	-	27,940,000	2,075,000	25,865,000
2005 Series B Tax Allocation Bonds	-	9,840,000	-	9,840,000	-	9,840,000
Total bonds payable	47,950,000	37,780,000	(37,450,000)	48,280,000	2,390,000	45,890,000
Compensated absences	210,002	177,747	(107,350)	280,399	-	280,399
Total governmental activities	48,160,002	37,957,747	(37,557,350)	48,560,399	2,390,000	46,170,399
Business-Type Activities:						
Notes Payable	3,466,933	-	(138,792)	3,328,141	138,792	3,189,349
Total business-type activities	3,466,933	-	(138,792)	3,328,141	138,792	3,189,349
Total	\$51,626,935	37,957,747	(37,696,142)	51,888,540	2,528,792	49,359,748

1999 Tax Allocation Bonds

In June 1999, the Commission issued \$5,050,000 in Tax Allocation Bonds for the Q Avenue Redevelopment project. The bonds consist of \$1,085,000 in serial bonds which mature from 2000 to 2010 in amounts ranging from \$45,000 to \$125,000, and \$1,425,000 in term bonds which mature in 2019, and \$2,540,000 in term bonds which mature in 2029. Interest is payable semi-annually on February 1 and August 1, at interest rates ranging from 3.30% to 4.50%

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

The annual debt service requirements for the 1999 Tax Allocation Bonds outstanding at June 30, 2005 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 100,000	228,225	328,225
2007	105,000	224,048	329,048
2008	110,000	219,586	329,586
2009	115,000	214,802	329,802
2010	120,000	209,690	329,690
2011	125,000	204,237	329,237
2012	130,000	198,175	328,175
2013	135,000	191,550	326,550
2014	145,000	184,550	329,550
2015	150,000	177,176	327,176
2016	155,000	169,550	324,550
2017	165,000	161,549	326,549
2018	175,000	153,050	328,050
2019	180,000	144,175	324,175
2020	190,000	134,925	324,925
2021	200,000	125,050	325,050
2022	210,000	114,543	324,543
2023	220,000	103,525	323,525
2024	235,000	91,866	326,866
2025	245,000	79,566	324,566
2026	260,000	66,625	326,625
2027	270,000	53,044	323,044
2028	285,000	38,822	323,822
2029	300,000	23,831	323,831
2030	<u>315,000</u>	<u>8,072</u>	<u>323,072</u>
Total	<u>\$4,640,000</u>	<u>3,520,232</u>	<u>8,160,232</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

2004 Tax Allocation Bonds

In June 2004, the Commission issued \$5,860,000 in Tax Allocation Bonds to finance a portion of the cost to construct a fire station, library, and community art center. The bonds consist of \$3,045,000 in serial bonds which mature from 2005-2015 in amounts ranging from \$220,000 to \$330,000, and \$1,085,000 in term bonds which matures in fiscal year 2029. Interest is paid semi-annually on February 1 and August 1, at interest rates ranging from 1.50% to 5.50%.

The annual debt service requirements for the 2004 Tax Allocation Bonds outstanding at June 30, 2005 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 220,000	248,162	468,162
2007	245,000	244,062	489,062
2008	250,000	238,300	488,300
2009	260,000	231,348	491,348
2010	265,000	223,534	488,534
2011	275,000	214,685	489,685
2012	285,000	204,880	489,880
2013	295,000	194,145	489,145
2014	305,000	182,440	487,440
2015	2,045,000	122,307	2,167,307
2016	330,000	61,263	391,263
2017	-	54,250	54,250
2018	-	54,250	54,250
2019	-	54,250	54,250
2020	-	54,250	54,250
2021	-	54,250	54,250
2022	-	54,250	54,250
2023	-	54,250	54,250
2024	-	54,250	54,250
2025	-	54,250	54,250
2026	-	54,250	54,250
2027	345,000	45,625	390,625
2028	360,000	28,000	388,000
2029	380,000	9,500	389,500
Total	<u>\$5,860,000</u>	<u>2,790,751</u>	<u>8,650,751</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

2005 Series A Tax Allocation Bonds

In January 2005, the Commission issued \$27,940,000 in Tax Allocation Bonds, Series A for the purpose of refunding the Commission's 2001 Series A Tax Allocation Bonds. Interest on the bonds is payable semiannually on August 1 and February 1, commencing August 1, 2005, at rates ranging from 2.9% to 4.85% per annum.

The annual debt service requirements for the 2005 Series A Tax Allocation Bonds outstanding at June 30, 2005 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,075,000	624,892	2,699,892
2007	1,650,000	1,149,293	2,799,293
2008	1,705,000	1,091,543	2,796,543
2009	1,765,000	1,027,605	2,792,605
2010	1,840,000	957,005	2,797,005
2011	2,125,000	879,725	3,004,725
2012	3,060,000	788,350	3,848,350
2013	3,200,000	650,650	3,850,650
2014	3,345,000	503,450	3,848,450
2015	3,505,000	346,235	3,851,235
2016	<u>3,670,000</u>	<u>177,995</u>	<u>3,847,995</u>
Total	<u>\$27,940,000</u>	<u>8,196,743</u>	<u>36,136,743</u>

2005 Series B Tax Allocation Bonds

In January 2005, the Commission issued \$9,840,000 in Tax Allocation Bonds, Series B for the purpose of refunding the Commission's 2001 Series B Tax Allocation Bonds. Interest on the bonds is payable semiannually on August 1 and February 1, commencing August 1, 2005, at rates ranging from 3.8% to 5.25% per annum.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

The annual debt service requirements for the 2005 Series B Tax Allocation Bonds outstanding at June 30, 2005 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	229,758	229,758
2007	-	444,693	444,693
2008	-	444,693	444,693
2009	-	444,693	444,693
2010	-	444,693	444,693
2011	-	444,693	444,693
2012	-	444,693	444,693
2013	-	444,693	444,693
2014	-	444,693	444,693
2015	-	444,693	444,693
2016	-	444,693	444,693
2017	760,000	444,693	1,204,693
2018	790,000	415,813	1,205,813
2019	825,000	385,003	1,210,003
2020	855,000	352,003	1,207,003
2021	890,000	317,803	1,207,803
2022	570,000	277,753	847,753
2023	595,000	253,528	848,528
2024	780,000	227,943	1,007,943
2025	815,000	194,013	1,009,013
2026	855,000	153,263	1,008,263
2027	555,000	110,513	665,513
2028	435,000	81,375	516,375
2029	250,000	58,538	308,538
2030	200,000	45,413	245,413
2031	210,000	34,913	244,913
2032	220,000	23,888	243,888
2033	<u>235,000</u>	<u>12,338</u>	<u>247,338</u>
Total	<u>\$9,840,000</u>	<u>8,065,481</u>	<u>17,905,481</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

Note Payable

The mortgage payable is secured by a deed of trust, bears interest at 6.5% and is payable to GMAC in the amount of \$3,718,928. The note is being repaid in monthly installments of \$30,005, including interest, through August 2019. The note is insured by HUD and is secured by substantially all property and equipment of the Morgan Towers Enterprise Fund.

The annual principal payments of the note payable outstanding at June 30, 2005 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 148,087	211,973	360,060
2007	158,005	202,055	360,060
2008	168,587	191,473	360,060
2009	179,877	180,183	360,060
2010	191,923	168,137	360,060
2011	204,777	155,283	360,060
2012	218,492	141,568	360,060
2013	233,124	126,936	360,060
2014	248,736	111,324	360,060
2015	265,395	94,665	360,060
2016	283,170	76,890	360,060
2017	302,136	57,924	360,060
2018	322,368	37,692	360,060
2019	343,957	16,103	360,060
2020	<u>59,507</u>	<u>503</u>	<u>60,010</u>
Total	<u>\$3,328,141</u>	<u>1,772,709</u>	<u>5,100,850</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities. (Continued)

Defeasance of Debt

The proceeds of the 2005 Series A and Series B Tax Allocation Bonds were used to advance refund \$37,355,000 in outstanding Tax Allocation Bonds (Series A and B) issued in 2001. The proceeds were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the 2001 Bonds. As a result, the 2001 Bonds are considered defeased and the corresponding liability has been removed from the Statement of Net Assets. .

As of June 30, 2005, the outstanding balance of defeased issues are as follows:

2001 Series A Tax Allocation Bonds	\$26,675,000
2001 Series B Tax Allocation Bonds	10,260,000
1998 Tax Allocation Bonds	19,580,000

(8) Commitments and Contingencies

Grant funds received by the Commission are subject to review by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. The management of the Commission believes that such disallowances, if any, will not be significant.

(9) National City Joint Powers Financing Authority

The National Joint Powers Financing Authority ("JPFA") was created pursuant to a joint exercise of powers agreement entered into by and between the Commission and the City of National City on April 16, 1991. The purpose of such agreement was to provide for the financing and construction of the new police facility and Community Center. The JPFA is administered by a commission consisting of the members of the City Council and all voting power of JPFA resides in the Commission.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(10) Deferred Compensation

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The maximum salary deferral is \$7,500 per year.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust for the exclusive benefit of plan participants and/or beneficiaries. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. Since the plan is managed and assets are held in trust by an administrator other than the Commission, the assets are no longer included in the Commission's financial statements. The assets held by the plan administrator had a market value of \$608,026 at June 30, 2005.

(11) Employee Retirement System

Plan Description

The Commission contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and the Commission's Resolution. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Participants are required to contribute 7% of their annual covered salary. The Commission makes the contributions required of the Commission's employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and Commission contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2004 to June 30, 2005 has been determined by an actuarial valuation of the plan as of June 30, 2002. The contribution rate indicated for the period is 12.739% of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2005, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2004 to June 30, 2005.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(11) Employee Retirement System, (Continued)

A summary of principle assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2002
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	17 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	8.25% (net of administrative expenses)
Projected Salary Increases	3.75% to 14.20% depending on Age, Service, and type of employment
Inflation	3.50%
Payroll Growth	3.75%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.5% and an annual production growth of 0.25%.

Initial plan unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level % of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period.

The unfunded actuarial liability for the miscellaneous plan is amortized over a period ending June 30, 2034.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Required Supplementary Information

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
6/30/02	\$ 5,539,307	5,419,413	119,894	102.2%	1,165,554	10.3%
6/30/03*	335,029,580	270,886,705	64,142,875	80.9%	75,357,937	85.1%
6/30/04	426,958,282	334,956,019	92,002,263	78.5%	90,667,029	101.5%

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(11) Employee Retirement System, (Continued)

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$60,464	100%	-0-
6/30/04	142,427	100%	-0-
6/30/05	241,262	100%	-0-

* Agencies with less than 100 members have been placed in a pool with other agencies that have similar benefit provisions. With the implementation of risk pooling, individual stand-alone valuations are no longer prepared. Instead the plan's financial results are pooled with the plans of other agencies. The data shown beginning with the June 30, 2003 valuation date represents data for the pool, rather than the individual Commission.

(12) Restatement of Beginning Fund Balances

The following schedule summarizes the effect of the prior period adjustments to the opening fund balances as of July 1, 2004:

	<u>Section 8 Housing Assistance</u>	<u>Redevelopment Fund</u>	<u>Government-Wide Statement of Activities</u>
Fund balance at beginning of year, as previously reported	\$1,029,682	11,617,680	(9,156,910)
Adjustments:			
To adjust due from other funds	(638,194)	-	(638,194)
To adjust due to other funds	-	638,194	638,194
To reverse payroll expenses over paid to the City	<u>-</u>	<u>711,959</u>	<u>711,959</u>
Fund balance at beginning of year, as restated	<u>\$ 391,488</u>	<u>12,967,833</u>	<u>(8,444,951)</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(13) Accumulated Fund Deficits

The following funds reported deficits in fund balances as of June 30, 2005:

Special Revenue Funds:	
Community Development Block Grant	\$(190,485)
Section 8 Housing Assistance	(752,403)
Nutrition Project	(804,977)

(14) Expenditures in Excess of Appropriations

Expenditures for the year ended June 30, 2005 exceeded the appropriations of the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Revenue Funds:			
Community Development Block Grant	\$1,682,583	2,126,227	(443,644)
Home Loan Program	-	17,473	(17,473)
Home Program	1,541,000	1,665,131	(124,131)
Nutrition Program	833,679	937,954	(104,275)
Debt Service Fund	1,000,000	3,771,567	(2,771,567)

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REQUIRED SUPPLEMENTARY INFORMATION

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to the Required Supplementary Information

Year ended June 30, 2005

(1) Budgetary Information

The Commission adopts an annual budget prepared on the modified accrual basis of accounting for all governmental fund types. The Executive Director is required to prepare and submit to the Commission Board of Directors the annual budget of the Commission and administer it after adoption. Any revisions that alter the total appropriations must be approved by the Board of Directors. All annual appropriations lapse at fiscal year-end except for unexpended purchase orders or contracts and unexpended appropriations for capital projects. Total expenditures may not legally exceed total appropriations at the fund level.

(2) Required Disclosures

Expenditures for the year ended June 30, 2005 exceeded the appropriations of the following special revenue funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Revenue Funds:			
Community Development			
Block Grant	\$1,682,583	2,126,227	(443,644)
Home Loan Program	-	17,473	(17,473)
Home Program	1,541,000	1,665,131	(124,131)
Nutrition Program	833,679	937,954	(104,275)

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Community Development Block Grant - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 2,050,027	1,324,000	1,641,963	317,963
HILP payments	-	-	1,005	1,005
Other income	-	4,116	74	(4,042)
Total revenues	<u>2,050,027</u>	<u>1,328,116</u>	<u>1,643,042</u>	<u>314,926</u>
Expenditures:				
Current:				
Personnel Services	-	-	201	(201)
Special Services	-	-	24,940	(24,940)
Community development	1,383,041	1,682,583	2,101,086	(418,503)
Capital outlay	-	-	-	-
Total expenditures	<u>1,383,041</u>	<u>1,682,583</u>	<u>2,126,227</u>	<u>(443,644)</u>
Excess (deficiency) of revenues over expenditures	<u>666,986</u>	<u>(354,467)</u>	<u>(483,185)</u>	<u>(128,718)</u>
Other financing sources (uses):				
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	666,986	(354,467)	(483,185)	(128,718)
Fund balance, beginning of year	<u>292,700</u>	<u>292,700</u>	<u>292,700</u>	<u>-</u>
Fund balance, end of year	<u>\$ 959,686</u>	<u>(61,767)</u>	<u>(190,485)</u>	<u>(128,718)</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Section 8 Housing Assistance - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 7,278,727	8,307,060	8,307,062	2
Interest income	60,000	32,000	37,587	5,587
Other income	-	-	4,418	4,418
Total revenues	<u>7,338,727</u>	<u>8,339,060</u>	<u>8,349,067</u>	<u>10,007</u>
Expenditures:				
Current:				
Personnel Services	767,727	750,000	688,132	61,868
Special Services	301,526	297,387	218,028	79,359
Community development	6,246,749	7,192,293	7,385,532	(193,239)
Capital outlay	<u>22,725</u>	<u>99,380</u>	<u>35,795</u>	<u>63,585</u>
Total expenditures	<u>7,338,727</u>	<u>8,339,060</u>	<u>8,327,487</u>	<u>11,573</u>
Excess (deficiency) of revenues over expenditures	-	-	21,580	21,580
Other financing sources (uses):				
Transfers out	-	-	(1,165,471)	(1,165,471)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,165,471)</u>	<u>(1,165,471)</u>
Net change in fund balance	-	-	(1,143,891)	(1,143,891)
Fund balance, beginning of year	<u>391,488</u>	<u>391,488</u>	<u>391,488</u>	<u>-</u>
Fund balance, end of year	<u>\$ 391,488</u>	<u>391,488</u>	<u>(752,403)</u>	<u>(1,143,891)</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Home Loan Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
HILP payments	\$ -	-	56,747	56,747
Interest income	50,000	50,000	303	(49,697)
Other income	-	-	824	824
Total revenues	50,000	50,000	57,874	7,874
Expenditures:				
Current:				
Personnel Services	-	-	267	(267)
Special Services	-	-	11,969	(11,969)
Community development	-	-	5,237	(5,237)
Capital outlay	-	-	-	-
Total expenditures	-	-	17,473	(17,473)
Excess (deficiency) of revenues over expenditures	50,000	50,000	40,401	(9,599)
Other financing sources (uses):				
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	50,000	50,000	40,401	(9,599)
Fund balance, beginning of year	3,298,640	3,298,640	3,298,640	-
Fund balance, end of year	\$ 3,348,640	3,348,640	3,339,041	(9,599)

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
HOME Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 666,000	1,541,000	1,130,811	(410,189)
HILP payments	-	-	35,165	35,165
Other income	-	-	258	258
Total revenues	<u>666,000</u>	<u>1,541,000</u>	<u>1,166,234</u>	<u>(374,766)</u>
Expenditures:				
Current:				
Personnel Services	63,000	63,000	48,336	14,664
Special Services	-	-	2,317	(2,317)
Community development	603,000	1,478,000	1,614,478	(136,478)
Capital outlay	-	-	-	-
Total expenditures	<u>666,000</u>	<u>1,541,000</u>	<u>1,665,131</u>	<u>(124,131)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(498,897)</u>	<u>(498,897)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	(498,897)	(498,897)
Fund balance, beginning of year	<u>3,609,775</u>	<u>3,609,775</u>	<u>3,609,775</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,609,775</u>	<u>3,609,775</u>	<u>3,110,878</u>	<u>(498,897)</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Nutrition Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 373,787	358,212	375,291	17,079
Other income	<u>733,203</u>	<u>475,467</u>	<u>237,016</u>	<u>(238,451)</u>
Total revenues	<u>1,106,990</u>	<u>833,679</u>	<u>612,307</u>	<u>(221,372)</u>
Expenditures:				
Current:				
Personnel Services	525,573	483,412	501,268	(17,856)
Special Services	84,509	73,341	35,028	38,313
Community development	492,654	276,926	401,658	(124,732)
Capital outlay	<u>4,254</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,106,990</u>	<u>833,679</u>	<u>937,954</u>	<u>(104,275)</u>
Excess (deficiency) of revenues over expenditures	-	-	(325,647)	(325,647)
Fund balance, beginning of year	<u>(479,330)</u>	<u>(479,330)</u>	<u>(479,330)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (479,330)</u>	<u>(479,330)</u>	<u>(804,977)</u>	<u>(325,647)</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Low and Moderate Income Housing Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax allocated	\$ 1,749,000	1,749,000	1,920,744	171,744
Interest income	-	17,000	23,627	6,627
Other income	-	855,568	183,311	(672,257)
Total revenues	<u>1,749,000</u>	<u>2,621,568</u>	<u>2,127,682</u>	<u>(493,886)</u>
Expenditures:				
Current:				
Personnel Services	-	-	94,277	(94,277)
Special Services	-	165,500	348	165,152
Community development	1,164,256	1,324,256	315,276	1,008,980
Capital outlay	-	-	-	-
Total expenditures	<u>1,164,256</u>	<u>1,489,756</u>	<u>409,901</u>	<u>1,079,855</u>
Excess (deficiency) of revenues over expenditures	<u>584,744</u>	<u>1,131,812</u>	<u>1,717,781</u>	<u>585,969</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(404,196)	(404,196)	(5,560,163)	(5,155,967)
Total other financing sources (uses)	<u>(404,196)</u>	<u>(404,196)</u>	<u>(5,560,163)</u>	<u>(5,155,967)</u>
Net change in fund balance	180,548	727,616	(3,842,382)	(4,569,998)
Fund balance, beginning of year, as restated	<u>8,051,161</u>	<u>8,051,161</u>	<u>8,051,161</u>	<u>-</u>
Fund balance, end of year	<u>\$ 8,231,709</u>	<u>8,778,777</u>	<u>4,208,779</u>	<u>(4,569,998)</u>

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SUPPLEMENTARY INFORMATION

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Education Village - Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other income	\$ -	-	-	-
Total revenues	-	-	-	-
Expenditures:				
Current:				
Community development	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other financing sources (uses):				
Transfers out	-	-	(4,500,000)	(4,500,000)
Total other financing sources (uses)	-	-	(4,500,000)	(4,500,000)
Net change in fund balance	-	-	(4,500,000)	(4,500,000)
Fund balance, beginning of year	4,500,000	4,500,000	4,500,000	-
Fund balance, end of year	\$ 4,500,000	4,500,000	-	(4,500,000)

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Redevelopment Fund - Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax allocated	\$ 6,996,000	6,996,000	7,682,979	686,979
Subventions and grants	599,003	349,003	190,676	(158,327)
Interest income	180,000	180,000	278,919	98,919
Other income	5,936,092	13,519,114	1,878,992	(11,640,122)
Total revenues	13,711,095	21,044,117	10,031,566	(11,012,551)
Expenditures:				
Current:				
Personnel Services	2,314,948	878,640	1,306,327	(427,687)
Special Services	3,111,215	3,466,446	2,352,519	1,113,927
Community development	741,111	16,553,545	4,987,674	11,565,871
Capital outlay	44,625	-	47,802	(47,802)
Total expenditures	6,211,899	20,898,631	8,694,322	12,204,309
Excess (deficiency) of revenues over expenditures	7,499,196	145,486	1,337,244	1,191,758
Other financing sources (uses):				
Transfers in	-	-	11,305,057	11,305,057
Transfers out	(2,403,698)	(1,229,335)	(1,005,751)	223,584
Transfer to City of National City	-	-	(2,225,000)	(2,225,000)
Total other financing sources (uses)	(2,403,698)	(1,229,335)	8,074,306	9,303,641
Net change in fund balance	5,095,498	(1,083,849)	9,411,550	10,495,399
Fund balance, beginning of year, as restated	12,967,833	12,967,833	12,967,833	-
Fund balance, end of year	\$ 18,063,331	11,883,984	22,379,383	10,495,399

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax allocated	\$ -	-	-	-
Subventions and grants	-	-	-	-
HILP payments	-	-	-	-
Interest income	-	-	4,684	4,684
Other income	-	-	852,592	852,592
Total revenues	-	-	857,276	857,276
Expenditures:				
Debt service:				
Principal payments	515,000	515,000	515,000	-
Interest and fiscal charges	1,738,698	485,000	3,256,567	(2,771,567)
Total expenditures	2,253,698	1,000,000	3,771,567	(2,771,567)
Excess (deficiency) of revenues over expenditures	(2,253,698)	(1,000,000)	(2,914,291)	(1,914,291)
Other financing sources (uses):				
Transfers in	-	-	1,409,947	1,409,947
Transfers out	-	-	(483,619)	(483,619)
Payment to bond escrow agent	-	-	(37,111,533)	(37,111,533)
Issuance of debt	-	-	37,780,000	37,780,000
Total other financing sources (uses)	-	-	1,594,795	1,594,795
Net change in fund balance	(2,253,698)	(1,000,000)	(1,319,496)	(319,496)
Fund balance, beginning of year	4,058,618	4,058,618	4,058,618	-
Fund balance, end of year	\$ 1,804,920	3,058,618	2,739,122	(319,496)

Board Chairman and Board Members
Community Development Commission of the City of National City
National City, California

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Community Development Commission of the City of National City ("Commission") as of and for the year ended June 30, 2005, and have issued our report thereon dated December 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's basic financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other immaterial matters involving the internal controls over financial reporting that we have reported to the management in a separate letter dated December 21, 2005.

Board Chairman and Board Members
Community Development Commission of the City of National City
National City, California

This report is intended solely for the information and use of the Audit committee, management, and the State Controller and is not intended to be and should not be used by anyone other than those specified parties.

Conrad and Associates, L.L.P.

December 21, 2005